



**CITY OF SCOTTSDALE  
AUDIT COMMITTEE**

**MONDAY, OCTOBER 27, 2008**

**CITY HALL, KIVA CONFERENCE ROOM  
3939 NORTH DRINKWATER BLVD  
SCOTTSDALE, AZ 85251**

**PRESENT:** W.J. "Jim" Lane, Chair  
Wayne Ecton, Councilman  
Ron McCullagh, Councilman

**STAFF:** Brent Stockwell, City Auditor's Office  
Kyla Anderson, City Auditor's Office  
Leo Lew, City Auditor's Office  
Susan English, City Auditor's Office  
Neal Shearer, Assistant City Manager  
Debra Baird, Community Services  
Craig Clifford, Financial Services  
Pauline Hecker, Financial Services  
Richard Chess, Financial Services  
La Verne Parker Diggs, Human Resources

**Call to Order/Roll Call**

Chairman Lane called the Audit Committee meeting to order at 3:05 p.m.

Roll call was taken confirming the presence of Committee Members as noted above.

**1. Approval of Minutes from the Regular Meeting on September 22, 2008**

Committee Member Ecton made a motion to approve the September 22, 2008 minutes. Committee Member McCullagh seconded the motion. The minutes were approved by a unanimous vote of three (3) to zero (0).

**2. Discussion and direction to staff regarding recruitment of City Auditor**

Acting City Auditor Brent Stockwell stated this item was added at the request of Committee Member Ecton to begin the discussion about the recruitment of a City Auditor. Mr. Stockwell stated he asked La Verne Parker Diggs from Human Resources attend to assist in this discussion. He presented the Committee with City Charter and City Code information regarding the City Auditor position and the required qualifications.

Chairman Lane noted this is a charter officer position, and it is strictly within the confines of the City Council to make the decision. Historically this position has been filled from within. After a recruitment method has been chosen, the Audit Committee or a Council subcommittee would review and interview potential candidates. Given the current conditions, Chairman Lane stated his preference would be a local search within the metropolitan area to see what candidates are available. He indicated he does not want to confine the search to just government auditors. He said this could be initiated immediately, noting there are probably reasonable prospects available in both the public and private sector.

Committee Member Ecton asked for clarification regarding the definition of a Certified Internal Auditor. Mr. Stockwell clarified that an individual with that designation has at least two years of accounting or auditing experience and has completed four tests of their auditing knowledge. The tests are based upon national and international auditing standards, and are not specifically testing government auditing knowledge. An individual can have their CPA, CMA, and CIA and not have any governmental auditing experience.

Chairman Lane specified that each one of those categories requires knowledge of governmental accounting and auditing. Code requires any one of the three designations, and from the standpoint of auditing in general, the CPA certificate encompasses all of those categories. It is imperative that the position be independent.

Committee Member Ecton expressed concern about recruiting only in the Valley, stating the best candidate could be left out. While it would be cheaper to recruit within the immediate area, he stated he would be more inclined to recruit nationally in order to find the very best candidate.

Committee Member McCullagh said he does not see what purpose is served by limiting the search to the Valley. He suggested doing an initial search within the State to review the applicants. If the applicants are not satisfactory, the search could then be expanded. Chairman Lane indicated that was a reasonable approach.

The Committee agreed that applicant screening should involve the Audit Committee, since the members are familiar with the work that goes on and the audit process.

Committee Member Ecton suggested this process not begin until after the election when the new Council is seated. Chairman Lane agreed, and stated since the election is next week, staff should begin appropriately advertising the position. He suggested the position be posted both internally and externally. Ms. Parker Diggs said the position would be posted both internally and externally statewide.

Ms. Parker Diggs asked whether the Committee would like the Human Resources Department to oversee the search or employ a search firm. Chairman Lane said he

would prefer to do it internally, if possible. Ms. Parker Diggs said ads would be placed in trade magazines and with the appropriate organizations.

Chairman Lane said his preference for this position would be a candidate with a CPA or CIA designation, as well as someone with experience in auditing financial statements, compliance measures, report writing, and internal control issues. Ms. Parker Diggs said the code laying out these requirements would be followed in creating the ads.

Chairman Lane noted a fair amount of management is required for this position, and it is imperative that the candidate has at least in excess of seven years of experience in the field, and having held a supervisory or managerial position.

Ms. Parker Diggs said she will prepare the notice and bring it to the Committee for further direction.

Committee Member Ecton indicated his preference for handling the search internally, rather than hiring an outside agency. Committee Member McCullagh agreed.

Committee Member McCullagh said he believes the initial search should be national, and that he sees no point in limiting the search. Chairman Lane expressed concern regarding the travel expenses required to interview candidates. He said he believes the state will produce a good field of candidates. Committee Member Ecton noted that many of the publications the job posting would appear in are national.

Chairman Lane suggested putting together the ad and compiling the list of advertising venues, and this issue can be discussed at a later date.

Ms. Parker Diggs said the position will be posted on the City's website, which is broadly distributed. She indicated it would probably be better to post widely, and the Committee can give preference to local candidates.

Assistant City Manager Neal Shearer suggested initially conducting telephone screenings for candidates that live outside the State. Financial Services General Manager Craig Clifford said videoconferences could be set up at Kinkos at a very reasonable price. Chairman Lane said that is a good alternative.

### **3. Discussion of Audit Report No. 0802, Workers' Compensation**

Mr. Stockwell said the auditor in charge of this report was Kyla Anderson. Also present for this discussion were Human Resources General Manager La Verne Parker Diggs, Financial Services General Manager Craig Clifford, and Pauline Hecker from Risk Management.

Chairman Lane said while the report should be courteous, it is important not to infer that the actual department being audited was conducting any part of the audit. It would be helpful if the report were more detailed and comprehensive.

Chairman Lane said the audit plan included the transitional duty issue. The audit report indicates this was outside of the scope of the audit; however, audit work noted an area of improvement within the program. The report states that Human Resources does not have a defined process necessary to establish criteria to conduct an audit, which means

there are no procedures in place for internal controls. He said the City Auditor's staff should look at that and make recommendations. Mr. Stockwell said the Transitional Duty Program is a separate issue from Workers' Compensation, and as the audit developed the Workers' Compensation issue was studied in detail. Transitional duty areas may or may not be related to Workers' Compensation. An additional audit of the Transitional Duty Program could be done at a later date. Key issues were highlighted in the report, recognizing that a full audit of that area was not completed. The prime focus of this audit was Workers' Compensation. Chairman Lane said if an area is identified within an audit plan for review, the necessary recommendations should have been included in the final report.

Ms. Parker Diggs said a process for assigning transitional duties is in place, especially in areas where it is used most often such as the police and fire departments; however, the issue could be addressed more fully citywide, and staff is currently developing the proper processes and procedures for any employee that might be injured and need transitional duties. Chairman Lane noted the same type of procedures could be employed in all departments.

Committee Member Ecton noted that the administrative policy that was amended is very well described on page 12 of the audit report. Chairman Lane said if an item is significant enough to be included in the summary, there would be no harm in referencing the page that details it. Committee Member Ecton clarified it would not be necessary to include a full description in the executive summary as well as within the report. He agreed a reference to the location within the report would be adequate.

Mr. Stockwell said it is important that the reports being issued by the City Auditor's staff meet the Committee's needs, and these comments will be helpful in drafting future reports.

Chairman Lane noted that page 8 of the report identified conditions found during control testing, but these conditions were excluded from the body of the report due to immateriality. He stated he would like to be informed as to the extent of the testing and exceptions that were found.

Chairman Lane said there is a great deal of concern in the Workers' Compensation area regarding the risk of things happening between the time of the alleged incident and when it is reported, and whether it is related to the work environment. Ms. Anderson said when an employee is injured and seeks medical treatment; they fill out a notification to the Industrial Commission at that time. The City now also sends a notice, as required. Chairman Lane said that would be worthy of mention in the body of the audit report.

In response to an inquiry by Chairman Lane, Ms. Anderson said calculations using an incorrect average wage maximum have been corrected. Chairman Lane stated it is important not to rely on the Industrial Commission to catch these errors, and internal controls should be in place.

Chairman Lane noted that supervisors' reports of accidents were not being received in Risk Management within 24 hours or before the following Monday. He indicated that is a fairly significant issue, and asked how much later these reports were being issued and how many exceptions were found. Pauline Hecker, Risk Management, clarified many times her department would receive a phone call or an email within the 24-hour time

period, but many times the report is not received within the required 24-hour limit. Ms. Anderson noted in the cases the reports were received late, it was a few days late.

Chairman Lane asked if the four to five payments to CorVel was in breach of contract or just an oversight. Ms. Anderson said it would be a good business practice that the City was not following, but it was not a breach of contract and there were no penalties.

Chairman Lane noted that competing priorities in the claims specialist's workload did not allow the manual to be updated. He asked if that was the level of employee that would be responsible for the manual. Ms. Anderson said they would not be responsible for approving the manual, but would probably be the best person to create or amend it. Chairman Lane asked for clarification regarding the increased workload. Ms. Anderson explained the workload has increased since the fire department came online in 2005.

Committee Member Ecton asked for clarification regarding the last paragraph of page 10. Ms. Anderson said their contract has been changed and CorVel is now being paid per line, thus an audit would be appropriate.

Chairman Lane noted that the audit found that City Code and City Administrative Regulations are not being followed and that procedures are not efficient. He asked if the procedures referred to are the ones being used or the ones that are not being followed. Ms. Anderson clarified that is referring to the ones that are being used.

Mr. Shearer said he can provide historical context on Item 2. This was a significant employee relations concern to the police department in particular. They approached City administration in 2002 and requested that their vacation leave or medical leave be made whole in Worker Compensation situations. The City Manager made the administrative judgment to make that adjustment, thinking she was operating within Code. That issue will be brought before Council to address.

Committee Member Ecton asked for clarification regarding CorVel's function. Ms. Anderson explained they receive the medical bills from the medical providers, and discount them to what the Industrial Commission sets as the rate. No one is currently reviewing this process. Chairman Lane said they have responsibilities to ensure they are complying and working within the realm of regulations.

#### **4. Discussion of Audit Report No. 0901-0904, Cash Handling**

Chairman Lane noted Item 2 says that the handling of jail bonds at the District II Police Department was not in compliance with Administrative Rule 268. He said bonds could be a substantial area of potential abuse, and internal controls are essential in an area like this. He asked for an estimate of the volume of activity this involves. Audit Associate Susan English said the average was approximately \$14,000 to \$15,000 per week.

Committee Member McCullagh asked how much cash the McCormick-Stillman Park handles per day. Ms. Anderson stated it varies depending on the time of year, but it could be thousands of dollars per day.

Chairman Lane said handling cash is a touchy area, and there must always be internal controls. Item No. 2 seems to have a high degree of non-compliance, and he emphasized the importance of putting these controls in place. Mr. Chess said a meeting was held with the police department regarding this issue, and there are dual controls for this process. The receipt of the money is verified, and two different individuals record the document for deposit. Mr. Clifford pointed out the likelihood of an error is greatly diminished with the dual controls; the audit points out issues that can be improved upon.

Chairman Lane asked who issues the receipted document that the audit shows is sometimes absent or not accounted for. Ms. Anderson clarified that is the actual receipt for the money when it first comes in.

Ms. Anderson stated the detention manager for all of the detention officers would be implementing the controls suggested in the audit. Mr. Stockwell explained that Financial Services would continue to exercise the management controls they have over that administrative regulation.

Committee Member Ecton noted that the supervisors involved are as responsible for the exceptions found as the employees handling the money, which is key to fixing the problem.

## **5. Staff update and discussion regarding status of current audits and projects**

Mr. Stockwell introduced new Senior Auditor Leo Lew. He indicated 30 applications were received from the recruitment. Mr. Lew has worked for the City since 2005 in the Tax Audit Division. He is a CPA with five years of audit experience.

Mr. Stockwell said seven audits are currently underway, and reports for these audits will be issued between January and March of 2009. The Audit Plan is 40 percent complete and ahead of schedule.

The City Auditor's staff is interested in the Committee's input regarding the recently initiated audits. It is helpful to address areas of concern or interest in order to ensure the final product is responsive to the Council's needs.

Committee Member Ecton said he was very interested in the Change Order and Contract Modification Audit, which involves large amounts of money. He expressed concern regarding the review process before change orders are granted.

Committee Member McCullagh asked for clarification regarding the scope of the change order audit. Mr. Stockwell stated it will encompass change orders and contract modifications for capital projects.

Mr. Stockwell pointed out that the scope of the audits currently underway is fairly large, covering some substantial issues.

## **6. Discussion of Agenda items for next Audit Committee meeting to be held at 3:00 p.m. on Monday, November 24, 2008**

Mr. Stockwell stated the prime item of discussion would be the external auditor returning and making a presentation on the results of their annual audit of the City's financial condition. Information will also be presented regarding the City Auditor recruitment process.

Chairman Lane asked if an item could be placed on the next agenda regarding the issues that came up with the sale of city assets on the internet. He would like information regarding past audits, findings, and if there were controls that were breached. The purpose would be to see how that condition existed and if there is any further problem.

Mr. Stockwell stated that the City Auditor's staff could go back and look at the previous audit work that was done in that area. He asked whether the committee would like a representative of management to be present to respond as to how they are handling the current issue. Chairman Lane responded that it would be subject to some conversation from the City Auditor's staff but then having them at the next meeting.

**Public Comment - None**

### **Adjournment**

With no further business to discuss, the Audit Committee meeting adjourned at 4:22 p.m.